

Voluntary Contributions




Questions & Answers about the New Voluntary Pre-Tax Contributions

PUBLIC EMPLOYEES' RETIREMENT FUND
INDIANA



ASA Voluntary Contributions



- Until 2000, the contribution to the ASA was set at a mandatory rate of 3%.
- A legislative change in 2000 allowed additional voluntary contributions of up to an additional 10% of the member's compensation.
- The ability to make contributions on a **pre-tax** basis was subject to IRS approval

PERF Receives IRS Approval



- PERF and TRF asked the IRS for a ruling regarding pre-tax status of these contributions.
- In April 2003 PERF and TRF received IRS approval to begin **pre-tax** voluntary contributions.
- ***Very important requirements and limitations apply.***

Requirements & Limitations



- Employers must first approve a **standard resolution** to permit their employees to participate in the new pre-tax program.
- A model resolution will be mailed to each employer.
- Employees must be active members of PERF.

Requirements & Limitations



- Members **must** have at least 5 years of service as of June 30.
- A member has a 2 year window to make a **pre-tax** voluntary contribution election, beginning September 1 of the year the member earns 5 years of service.

Requirements & Limitations



- The beginning date for election to participate is September 1, 2003 for the first group of qualifying members, those who had five (5) years of service on June 30, 2003.
- Once the member makes a **pre-tax** election, it cannot be changed unless the member changes employers.

Requirements & Limitations



- However, the member **may** make additional **post-tax** contributions at any time (depending on the employers rules regarding these contributions).
- The total of the voluntary pre-tax & voluntary post-tax contributions cannot exceed 10% of compensation.

The Process



Employer Participation

- Employers must first adopt a participation resolution.
- Employers mail a copy of the resolution to PERF.
- PERF reviews and approves the resolution.

The Process



Pre-tax Contribution Election

- Member and employer complete an application.
- Employer verifies that the member's **total** voluntary contributions do not exceed 10% and mails the application to PERF.

The Process



- PERF verifies that the employer has a valid resolution and that the employee is eligible.
- PERF signs off on the application and returns it to the member's employer.
- Employer begins making additional deductions for voluntary contributions.

The Process



Wages and Contributions

- Employer makes additional deductions for voluntary contributions.
- Employer reports wages and contributions to PERF quarterly.
- Report is audited by PERF to verify that contributions match reported wages.

Questions & Answers



■ Who is an eligible employee?

Eligible employees are active PERF members, currently working for a participating employer, that have at least 5 years of earned service and are not outside of their election period.

Questions & Answers



■ When is my election period?

Your election period is the 2 year period beginning September 1 after you earn 5 years of service. You must have earned at least 5 years of service by June 30. See the following chart for an illustration.

Questions & Answers

2003 Plan Year

If your employer adopted their resolution	07/01/2003 thru 12/31/2003
If you	Have 5 years of PERF/TRF service or more as of 06/30/2003
Your Election Window	The later of 09/01/2003 or the employer's adoption date thru 08/31/2005

2004 Plan Year

If your employer adopted their resolution	01/01/2004 thru 08/31/2004
If you	Have 5 years of PERF/TRF service as of 06/30/2004
Your Election Window	09/01/2004 thru 08/31/2006

2005 Plan Year

If your employer adopted their resolution	09/01/2004 thru 08/31/2005
If you	Have 5 years of PERF/TRF service as of 06/30/2005
Your Election Window	09/01/2005 thru 08/31/2007

Questions & Answers



■ When can I make the pre-tax election?

An eligible employee can make the pre-tax election at any time during their 2 year election period.

Questions & Answers



- What happens if I do not participate during my 2 year election period?

If you do not elect to participate during your election period, you cannot later make a **pre-tax** election unless you change your employer.

Questions & Answers



- How long does my **pre-tax** election apply?

Your pre-tax election **cannot** be changed. It will continue to apply as long as you work for the same employer, even if you leave and come back to work for the same employer.

Questions & Answers



- May I change or stop my voluntary **post-tax** contributions?

Yes. You may change your voluntary post-tax contributions. The manner and frequency of which you can do this is determined by your employer.

Questions & Answers



- What is the benefit of having **post-tax** contributions?

The election is not irrevocable so it is flexible. If your circumstances change, you can change the amount of post-tax voluntary contributions or stop them. Earnings on both post-tax and pre-tax contributions are tax deferred.

Questions & Answers



- Can I mix voluntary post-tax and pre-tax contributions?

Yes, so long as the aggregate of post-tax and pre-tax voluntary contributions do not exceed 10% of compensation.

Questions & Answers



- How will my voluntary contributions be invested.

Since your new contributions become part of your Annuity Savings Account, they will be allocated for investment in the same way as you directed your 3% mandatory contributions be allocated.

Questions & Answers



- Will making additional pre-tax or post-tax voluntary contributions lower my salary for pension calculation purposes?

Making additional pre-tax or post-tax voluntary contributions will not lower your salary for pension calculation purposes.

Questions & Answers



- How does making a contribution pre-tax or post-tax affect my take-home pay?

With pre-tax contributions, your withholding is calculated after your contributions are deducted. With post-tax contributions, your withholding is calculated before your contributions are deducted. The difference in take-home pay can be significant. Look at the following example.

Questions & Answers

John Doe

Gross Bi-weekly Pay: \$1000.00

Withholding Tax Rate: 20%

Voluntary Contribution: 10% of Gross Pay

	Pre-Tax Contributions	Post-Tax Contributions
Gross Pay	1,000.00	1,000.00
Pre-Tax Deduction	100.00	
Adjusted Gross Pay	900.00	1,000.00
Withholding	180.00	200.00
Post-Tax Deduction		100.00
Net Pay	720.00	700.00

Questions & Answers



- Can an employer withdraw from participation in the voluntary contribution program?

Yes, an employer may withdraw from participation in the voluntary contribution plan at any time.

Questions & Answers



- What happens if my employer withdraws from participation?

You will no longer be able to make additional contributions. However, any funds you have already contributed will remain in your Annuity Savings Account.



**Are there any other
questions?**